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The production and consumption of animal welfare: Do economic incentives matter?

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Using animal welfare as an example we discuss how the economic incentives of producers and consumers are affected by intangible factors imposed by the food and other forms of legislation. We have chosen to focus on animal welfare attributes although many other intangible attributes such as food safety, minimum quality standards and traceability are embedded in the legislation. Our discussion concerns especially the following questions: Do animal welfare standards relate to producers economic performance? Do animal welfare standards influence consumers' willingness to pay for such attributes? Do producers and consumers have any common economic incentives to increase or decrease animal welfare standards?

The impact of animal welfare on producers economic incentives have been investigated in a recent study focusing on the empirical relationship between animal welfare and economics among pig producers in Denmark. We apply data from the inspection of the animal welfare legislation at Danish pig farms. The economic analyses consist of three parts. The first part presents results of descriptive analyses where possible correlations between economic variables and the constructed indicators of animal welfare are investigated. The results show that farm size and experience are uncorrelated with animal welfare. Good animal welfare on integrated pig farms is correlated with having higher gross margins per pig unit, despite also having significantly higher medicine and veterinary costs per pig unit. Good animal welfare on specialized slaughter pig farms is correlated with having low medicine and veterinary costs per pig unit.

The second part provides results of regression analyses which generally confirm the relationships found in the descriptive analyses; however the number of identified significant correlations is smaller in the regression analysis than in the descriptive analyses. In the third part method of econometric analysis of technical efficiency is used to investigate the relationship between animal welfare and technical efficiency of Danish pig producers. Results show that farms with good animal welfare management are on average more technically efficient.